



3.7 Financial Planning

Aims and Approach

The Health Board's Financial Planning Framework is intended to underpin and support the delivery of key organisational priorities identified through the integrated planning process and arising from the Organisational Strategy and refreshed Clinical Services Plan.

A significant aim of the Financial Plan is to demonstrate that, in line with Welsh Government's expectations and the Health Board's ambitions, we will come back into financial balance in 2019-20 building on our improving financial performance over the last two years. However, as part of an integrated Annual Plan, the Financial Plan actively supports the Health Board's strategic aims of delivering better value outcomes and better care, and the achievement of breakeven is not intended to compromise these fundamental requirements.

The financial planning approach in 2019-20 is clear:

- to strengthen our underlying position;
- embed stringent cost avoidance and cost control measures;
- to prioritise and deliver "high value" efficiency opportunities; and
- return to financial balance.

Planning Environment

The Health Board is focussed on developing and delivering an annual financial plan for 2019-20, as a precursor to progressing an approvable Integrated Medium Term Plan (IMTP) which demonstrates and is able to deliver sustainable financial balance alongside other key priorities.

A key issue for 2019-20 is to consider the potential for any on-going (transitional or recurrent) financial implications associated with the Bridgend boundary change, following the transfer of responsibility for the Bridgend population healthcare planning and delivery on 1 April 2019. The financial disaggregation relating to the transfer is a highly complex and detailed undertaking, which is dependent on key processes such as service delivery arrangements, intra NHS contracting and the transfer of staff. The disaggregation is being undertaken in partnership with Cwm Taf Morgannwg

University Health Board (CTMUHB) where both organisations are committed to working towards cost neutrality and, where cost pressures are emerging, aim to minimise and manage these through jointly agreed actions.

Financial Plan Context – Other Key Issues

NHS (Wales) Finance Act 2014

The Health Board has a statutory duty to breakeven over a rolling three year period. The Health Board's performance against this duty is shown below:

NHS (Wales) Finance Act	Year 1 2016/17 £0	Year 2 2017*18 £0	Year 3 2018-19 £0	Cumulative Total £0
Revenue Resource Funding	1,060,938	1,096,250	1,133,300	3,290,488
Total operating Expenses	1,100,254	1,128,667	1,143,179	3,372,100
Under/(Over) spend against	-39,316	-32,417	-9,897	-81,612
As a % of Revenue Resource Limit	3.71%	2.96%	0.87%	2.48%

As a Health Board in Targeted Intervention since 2016 we have a clear ambition to significantly improve our financial position, alongside other material improvements in all our Targeted Intervention areas, and to do so on a sustainable basis. The Financial Plan is predicated on achieving financial balance from 2019-20.

Financial Reviews

In developing the approach to the Financial Plan, we have reviewed the Deloitte's Financial Governance Review, the Wales Audit Office Structured Assessment 2017 and Welsh Government's feedback on the current year financial plan. These set out clear recommendations for strengthening and improving, with a view to addressing our Targeted Intervention status, as well as expectations for future plans. We have focussed in particular on the following:

- The Financial Plan should support the organisational strategy and align to other key plans, including service, workforce, quality and performance;
- The Health Board should understand the actions required to address the underlying deficit;
- We should take a long term strategic approach to savings, linking them to service development and wider programmes of change, and move



from transactional to transformational actions (i.e. a shift from technical to allocative efficiencies);

- Savings delivery plans should be detailed and realistic, with clear actions, milestones and timescales;
- The Health Board must move away from a reliance on non-recurrent and unplanned opportunities delivered in year ("a finance bail out") to granular implementation plans that have been robustly assessed and quantified, and where there is a high level of delivery confidence; and
- There should be greater focus on benefits realisation, and investments should be monitored and managed so that improvements in quality, performance and efficiency are delivered.

Changes in Approach in 2018-19

The Health Board made a number of changes in setting its current year financial plan which marked a strengthening of approach and a growing maturity of planning methodology. Key actions included the rebasing of budgets to reflect the 2018-19 opening deficit of £34m, providing our Units with a revised financial baseline to take account of operational pressures, and greater transparency around central reserves and contingency. We also started to move away from traditional cost improvement programmes (CIPs) with a proportion of the savings targets generated from benchmarking and efficiency data to be delivered via Executive led workstreams in the Recovery & Sustainability Programme.

In 2018-19, the Health Board also revised its approach to budget delegation and accountability, where enhanced delegation letters for Executive and Unit Directors set out clearer expectations around finance, performance and workforce deliverables.

2018-19 Performance

The Health Board is continuing to improve its overall financial outturn position, moving from a deficit of £39m in 2016-17 to a deficit of £10m in 2018-19. However, the key challenges identified via the external reviews remain and actions are being further developed - in particular with regard to improving delivery confidence of planned savings and minimising the use of non-recurrent mitigating opportunities to achieve the forecast financial outturn. The 2019-20 Financial Plan provides further targeted action in these areas and is developing strengthened savings delivery, reporting,

governance and accountability processes as part of the Board's overall assurance mechanisms.

2019-20 Financial Plan

This is set out below.

	Risk Assessed Plan 2019-20 £m
Forecast Opening Position Post Bridgend Transfer*	-23.3
Unavoidable Cost pressures	-42.3
Application of Core Funding Uplift	33.2
LTA Benefit	0.4
Required Savings	-32
WG Non recurrent Funding : Supporting developments	10
Planned recurrent Savings	21.3
Planned Non recurrent Opportunities	0.7
Forecast outturn	0
Diseconomies of Scale	-5.4
Further mitigating opportunities and actions, including Welsh Government transitional support (level to be confirmed)	5.4
Forecast Outturn	0

£22m
Savings

*Assumes delivery of £3.6m non recurrent income and other opportunities to offset non delivery of 2018-19 savings in opening position

Cost Pressures and Income Analysis

A summary of our Welsh Government funding allocations is shown below:

Anticipated Income	2019-20 £m
Core Welsh Government Funding:	
2% uplift (including mental health pay and prices uplift)	13.6
1% Uplift for "Stronger IMTPs"	5.8
Agenda for Change	7
Total Core Funding Increase	26.4
Additional ICF Funding	3.9
GMS Healthier Wales Allocation	0.6
Subtotal	30.9
Provider LTA Uplift	2.7
Total Anticipated Funding	33.6

The application of this funding against our assessed cost pressures is shown below:



Unavoidable Inflation, Demand/Service Growth and Known Commitments	2019-20 \$m	Assumptions	Application of Funding	2019-20 £m	Remaining Cost Pressure £m
Pay Inflation	5.4	Based on 1% and incremental drift	Funded from 2% Uplift	-5.4	0.0
Agenda for Change	7.0		Funded from A4C/DDRB Uplift	-7	0.0
Non Pay	2.9	2.5% increase to include drugs; PFI £0.385m	PFI Funded only from 2%	-0.4	2.5
CHC & FNC Inflation Growth	3.9	Full year effect of 18-19 growth, plus forecast 19-20 growth, plus 5% inflation	From MH 2% Uplift	-1.7	2.2
Primary Care Prescribing	2.4	Based on historic growth	Unfunded	0	2.4
NICE	3.5		From 2% Uplift	-1.5	2.0
WHSSC	3.0	WHSSC assessment of roll over position and unavoidable growth, plus new developments, 1% applied to new developments. Excludes HRG4+ / CQUIN	From 2% Uplift	-3	0.0
EASC	0.1	Includes APP, Clinical desk enhancements, EMRTS expansion (fye) and falls vehicles	From 2% Uplift	-0.1	0.0
National Policy and Statutory Requirements	1.1	Nurse Staffing Act	From 2% Uplift	-1.1	0.0
Service Demand	1.2		Balance of 2% Uplift/1% Uplift	-1.2	0.0
Known National Commitments	1.0		From 1% Uplift	-1	0.0
Full Year Effect of Top Slice, Plus New Top Slice	1.9	As per Allocation Letter	From 1% Uplift	-1.9	0.0
Performance Support	1.9		From 1% Uplift	-1.9	0.0
ICF Additional Costs	3.9		Funded from ICF	-3.9	0.0

GP Healthier Wales Costs	0.6		Funded from Healthier Wales	-0.6	0.0
Commissioner LTA Uplift	2.5			-2.5	0.0
Total	42.3		Total	-33.2	9.1

Savings Delivery

Our approach to savings delivery builds upon the work we started in 2018-19, using internal benchmarking data and information from the all Wales Efficiency Framework to look for areas of improvement in efficiency and cost reduction. We are using a blended approach incorporating both technical and allocative efficiencies. This methodology supports the direction of travel set out in the Clinical Services Plan, where the Health Board needs to deliver efficiencies both to improve performance, quality and financial gains and also to create the operational headroom to deliver service transformation.

It should be noted that the provision of better care - focusing on high quality, safe and accessible services - is at the heart of our approach to delivery and remains the key focus in terms of the Financial Plan. As such, we have implemented a Quality Impact Assessment (QIA) process to ensure we systematically review all savings projects, which include cost improvement, efficiency and service change schemes, to risk assess the quality and safety implications and to identify mitigation and management actions where appropriate.

Savings Summary

The Health Board has distinguished between its core savings plan (£22m) and the additional savings required to offset diseconomies of scale following the Bridgend disaggregation (£5.4m). The diseconomies are being primarily driven by our ability to fully release costs particularly over the short term, for example, from corporate functions and other management overheads in operational service areas as we transition into our new operating model.

Welsh Government has set out its intention to provide financial support to the Health Board to help mitigate against our transitional costs as a result of the Bridgend transfer and will confirm the level of support once the outcome of an externally provided due diligence review has completed. The Financial Plan therefore assumes that further savings will be identified to cover any



residual gap associated with the Bridgend diseconomies of scale and this is now being incorporated into the overall approach to in-year delivery through the Delivery Support Team and the Health Board more broadly.

Key Financial Assumptions

- The funding assumptions reflect the Welsh Government's LHB Revenue Allocation Letter which is based on the Health Board's new boundary;
- Welsh Government has confirmed an additional 1% uplift to drive "stronger IMTPs" - £5.8m for the Health Board. This has been fully deployed in the Financial Plan to support strategic national investments (i.e. funding the increase in the top slice) and in delivering other national developments and growth.
- The balance of the additional 1% of £1.9m is being used to support performance, supplemented by £1.5m of internal funding – thereby providing £3.4m to support sustainable treatment performance in planned care;
- The plan provides £1.5m for winter pressures; £1m for Invest to Save; and £1m contingency;
- Additional allocations for the Integrated Care Fund and General Medical Services (A Healthier Wales) are recognised and offset by equivalent costs;
- The Welsh Government Final Budget indicates the targeted release of further funding in-year to support National priorities, including the Transformation Fund, digital transformation, critical care, performance (including outpatients), mental health and the single cancer pathway. These are not reflected in this plan, and all additional allocations will be offset by equivalent costs.
- The Plan assumes £10m non-recurrent funding from Welsh Government to support developments and service change, and these include developing and expanding the COPD early supported discharge team; managing frailty at the front door at Singleton, supporting safer and more efficient prescribing and developing our hearing loss pathway.

Key Risks

- Savings delivery of identified schemes given current and past performance.

Financial Grip & Control - 2019-20

- Strengthened 'drumbeat' to ensure focus and oversight
- In Q1, fortnightly 'support and challenge' sessions with CE, COO, DOF & Service Directors
- Monthly individual Unit & corporate directorate financial recovery meetings – finance reporting packs including monthly reporting; savings delivery & pipeline actions & ideas
- Chief Executive led Monthly Financial Management Group:
 - Review in month position (week 2) & identify corrective action
 - Review delivery of savings schemes & identify corrective action
 - Pipeline review and actions
- Assurance via Performance & Finance Committee
- Healthcare Value & Efficiency Programme will report in via Transformation Programme to ensure synergy and will oversee HVO delivery & forward look developing a strategic pipeline which is aligned with annual plan



- Savings pipeline development – providing in year contingency against savings slippage and operational pressures, as well as early sight of developments to be worked up for future years;
- Holding, or improving, the underlying position, including the ability to deliver the full year effect of this year's and previous years' savings;
- Accuracy of estimates to inform cost growth, for example, CHC growth based on current data analysis is included and also includes inflationary uplift of 5% (as indicated by local authority partners) to reflect pay awards and pensions increase;
- Unscheduled care, including supporting the workforce issues at Morriston Emergency Department. As described in the updated Unscheduled Care Plan, there are continuing challenges in the system including increased attendances at our hospitals' front doors and higher patient acuity which, in particular, are impacting on our bed capacity and the use of "surge" beds;
- Planned care performance, where any further Welsh Government funding allocated in-year to support improvements may be taken back if the required trajectories are not met. There is also a risk to levels of



income received for the planned care activities we provide, given the continuing pressures on our beds, linked to the pressures on our unscheduled care system.

Governance and Accountability

The Health Board continues to strengthen its focus and approach to savings management, governance and accountability. The key changes to be deployed in 2019-20 are set out below.

However, as a result of in-year delivery pressures and to support grip and recovery, the Health Board has introduced a Delivery Support Team as below:

DELIVERY SUPPORT TEAM

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- The Health Board established a Delivery Support Team in June 2019.

Focus on:

> Savings delivery and assurance:

- Existing plans
- Recovery Plans
- Procurement
- Medicine Management
- High Value Opportunities

> Grip:

- Variable spend
- Grip and stretch targets

> Sustainability:

- Efficiency Framework
- Future pipeline
- Spread of best practice
- Structures

Actions:

- New Financial Recovery packs issued – weekly & monthly
- Strengthened grip & assurance: weekly drumbeat of financial recovery meetings – 1 full cycle completed, started cycle 2:
 - Week 1: Financial Performance
 - Week 2: Savings assurance
 - Week 3: Cross cutting meeting (all units & Executives)
 - Week 4: Workforce
- Monthly Financial Management Group chaired by Chief Executive
- Monthly Assurance & scrutiny through Finance & Performance Committee
- Regular Executive Team Updates
- Deep dive into High Value Opportunities schemes
- Refreshed Spending Controls issued
- Weekly HVO reporting with metrics (traction & impact)

Summary Assessment

The Health Board is committed to achieving financial balance in 2019-20, continuing the financial performance improvement over the last two years.

However, the Financial Plan is challenging and contains risk. The Board recognises that the scale of core savings required is material, particularly when considered in light of previous years' performance, and successful delivery of the Plan will require significant and consistent focus in a number of fundamental areas. This will include maintaining grip of the underlying position during sustained operational pressures, an enhanced emphasis on in-year savings to drive recurrent release, and the identification of additional opportunities to mitigate the costs being temporarily retained following the Bridgend transfer.

The strengthening of the governance framework is intended to support timely and transparent scrutiny, and to further enable recovery and improvement actions to be rapidly agreed and monitored to increase the forecast delivery confidence.